

Message Text

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41

ACTION OPIC-06

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FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 5743

INFO DEPT OF TREASURY WASHDC

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

:USDOC WAASHDC

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STATE PASS CORPS OF ENGINEERS, CHIEF OF ENGINEERS

STATE FOR OPIC

TREASURY FOR OSAA

JIDDA PASS RIYADH

COMMERCE FOR CAGNE

E.O. 11652: NA

TAGS: BEXP,IR

SUBJECT: SURETY BOND DISCUSSIONS IN IRAN

1. SUMMARY: TEAM HAD PRODUCTIVE MEETINGS WITH REPRESENTATIVES OF BANK MELLI, BANK MARKAZI, CENTRAL INSURANCE ORGANIZATION OF IRAN AND U.S. BANKING AND CONSTRUCTION INDUSTRY REPRESENTATIVES. THE MEETINGS STIRRED INTEREST IN SURETY BONDS AS AN ALTERNATIVE TO BANK GUARANTEES. NUMEROUS CHANGES IN POLICIES AND PROCEDURES WILL BE NECESSARY BEFORE SIGNIFICANT USE OF SURETY BONDS CAN OCCUR AND, AT BEST, MEETINGS CONSITUTE A START IN LENGTHY PROCESS OF CONSULTATIONS ON CONTRACTING ISSUES. TEAM WILL PROVIDE VARIOUS

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IRANIAN GOVERNMENT OFFICIALS FURTHER DETAILS OF SURETY SYSTEM FORM

WASHINGTON AND EMBASSY WILL ATTEMPT TO KEEP DIALOGUE GOING WITH GOI OFFICIALS. END SUMMARY.

2. US TEAM COMPOSED OF MCFADDEN AND BAZARIAN OF TREASURY, SELTZER OF THE CORPS OF ENGINEERS, HEARN OF COMMERCE, LEARCH OF SURETY ASSOCIATION OF AMERICAN, WESTLEY, EMBASSY COMMERCIAL ATTACHE AND ISMAIL GHOBADI, WMBASSY ECONOMIC ADVISOR.

3. TEAM FIRST MET WITH BANK MELLI OFFICIALS, HOUSHANG HEDAYATI, DIRECTOR GUARANTEE DEPARTMENT; HOUSHANG HARIRI AND ABDUL ABBAS HAFIZI, ASSISTANT DIRECTORS, INTERNATIONAL DEPARTMENT. BANK MELLI EXECUTORS BID AND PERFORMANCE GUARANTEES AND WERE QUITE PROTECTIVE OF THE GUARANTEE ARRANGEMENT. BANK MELLI REQUIRES A CONVERTER

DTRANTEE OF A PRIME FOREIGN BANK. BANK MELLI CONCEDED SOME UN-FAMILIARITY WITH SURETY BONDS AND ALSO WAS CONCERNED WITH THE COMPLEXITY OF SUCH A BOND AS COMPARED TO A BANK GUARANTEE. THEY INDICATED THAT A SURETY BOND SYSTEM HAS BEEN UTILIZED FOR A FEW GOVERNMENT CONTRACTS, SUCH AS WITH NIOC. THE BANK MELLI OFFICILAS NTOED THAT GUARANTEES ARE GOOD BUSINESS FOR THE IRANIAN BANKING INDUSTRY; HOWEVER, IF BANK MELLI RECEIVES INSTRUCTIONS THAT A SURETY ARRANGEMENT IS TO BE UTILIZED IT WOULD NOT OBJECT. IN GENERAL, THERE APPEARED TO BE LITTLE INTEREST AMONG THE BANK MELLI OFFICIALS IN CHANNGING THE EXISTING SYSTEM OF BANK GUARANTEES.

4. THE TEAM THEN MET WITH FEREYDOUN FARHANG, DIRECTOR OF THE INTERNATIONAL DEPARTMENT OF BANK MARKAZI WHO SUBSEQUENTLY SUGGESTED THAT IT ALSO MEET VICE-GOVERNOR OF BANK MARKAZI, MR. SHAPUR SHIRAZI. MR. FARHANG SHOWED REAL INTEREST AND ASKED FOR A DETAILED FOLLOW-UP OF MATERIAL. SIGNIFICANTLY, HE NOTED THAT THE BANKS WOULD LOSE A SUBSTANTIAL AMOUNT OF BUSINESS WERE THE SURETY APPROACH TO BE ACCEPTED. ;

. SHIRAZI SAID THAT ADVANCE PAYMENT GUARANTEES WERE REQUIRED BY GOVERNMENT REGULATIONS AND THEREFORE HE COULD NOT ACCEPT A SURETY BOND FOR THE ADVANCE PAYMENT QUARANTEE. HOWEVER, SURETY BONDS COULD IN PRINCIPLE BE ACCEPTED IN LIEU OF BID AND PERFORMANCE GUARANTEES. HE ASKED MANY QUESTIONS, SUCH AS WHETHER THE PROVISIONS OF SURETY BONDS ARE STANDARD AS TO FORM AND WHERE COULD IRAN SUE SINCE MANY SURETY COMPANIES DO NOT HAVE FINANCIAL ASSETS IN IRAN. HE DID WANT FURTHER INFORMATION WITH RESPECT TO UNCLASSIFIED

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SURETY BONDS FOR BID AND PERFORMANCE AND A DETAILED ANALYSIS OF THE FIANACIAL STRENGTH OF INDIVIDUAL SURETIES.

5. THE AFTERNOON MEETING CONSISTED OF A ROUND-TABLE WITH EMBASSY OFFICIALS AND REPRESENTATIVES FROM THE U.S. CONSTRUCTION INDUSTRY INCLUDING THE FOLLOWING COMPANIES: BLOUNT BROS., BROWN & ROOTGT G.TA&E. TAMS, J.A. JONES, TURNER, MORRISON-KNUDSEN AND GREEN. AFTER TEAM BRIEFED THE GROUP ON THE PURPOSE OF THE TEAM, THE

INDUSTRY EXPRESSED THEIR MAJOR CONCERN THAT DUE TO LARGE MIDDLE EAST GUARANTEE REQUIREMENTS THEIR CREDIT LINES FROM U.S. BANKS WERE RAPIDLY BEING ABSORBED AND THEY WERE PREVENTED FROM BIDDING ON OTHER PROJECTS. ONE COMPANY REPORTED SUCCESS IN CONVINCING AN IRANIAN GOVERNMENT ENTITY(NIOC) TO ACCEPT SURETIES ON BIDS AT LEAST.

6. ON FEBRUARY 22, THE TEAM, PLUS ECONOMIC/COMMERCIAL COUNSELOR BREWIN, MET WITH REPRESENTATIVES OF U.S. BANKING COMMUNITY IN IRAN. BANK REPRESENTATIVE INCLUDED JAN LAGERWIG, VICE PRESIDENT IRANIANS BANK(FNCB JOINT VENTURE); ROGER BORWN, MARINE MIDLAND; LESTER ANDERSON, CHEMICAL BANK; JAMES WHITAKER, BANK OF AMERICA; AND LEON REINHART, FNCB. BANK OF AMERICA AND FNCB REPRESENTATIVES NOTED THAT THEIR BANKS WERE BEGINNING TO FEEL THE CREDIT CONSTRAINTS IMPOSED BY GUARANTEES IN THE FORM OF LETTERS OF CREDIT. HOWEVER, THEY CAUTIONED THAT A SURETY APPROACH WOULD NOT BE EASY TO SELL TO THE IRANIAN GOVERNMENT WHICH WOULD BE RELUCTANT TO GIVE UP THE ON-DEMAND PAYMENT FEATURE OF THE GUARANTEE SYSTEM AND TO AGREE TO AN IMPARTIAL ARBITRATION PROVISION. THE BANKS WERE INTERESTED IN POSSIBLE OPIC AND EXIM SUPPORT. THEY INDICATED THAT THEY WOULD NOT BE UNHAPPY TO SEE ACCEPTANCE OF A SURETY SYSTEM EVEN IF IT MEANT FEWER GUARANTEES BEING WRITTEN BY THEM.

7. TEAM MET IN AFTERNOON WITH G.H. DJABBARI, DEPUTY TO THE PRESIDENT OF CENTRAL INSURANCE OF IRAN GOVERNMENT REGULATORY AND RE-INSURANCE ENTITY). THE MEETING WAS ENCOURAGING BECAUSE THIS ENTITY HAS AUTHORIZED SEVERAL COMPANIES TO PROVIDE SURETY FUNDS ON GOVERNMENT PROJECTS. HOWEVER, ONLY IRANIAN LICENSED COMPANIES COULD ISSUE SURETIES AND DOLLAR LIMITS ON BONDS WERE VERY SMALL AT PRESENT. HE REQUESTED ADDITIONAL DATA ON SURETIES.

8. REGARDING FINISH OF SAUDI ARABIAN PORTION OF TRIP, HEAM DID
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NOT MEET A SECOND TIME WITH SAG OFFICIALS. DR. AHMED ABDULLATIF OF SAMA REPORTED THAT HIS STAFF IS STUDYING OUR PROPOSAL AND WILL AWAIT THE REQUESTED ADDITIONAL INFORMATION BEFORE DECIDING ON FOLLOW-UP MEETINGS.

9. MCFADDEN AND BAZARIAN WILL RETURN TO WASHINGTON THURSDAY, FEBRUARY 26 AFTER CONSULTATIONS IN KUWAIT FEBRUARY 23 TO 25. PLEASE INFORM USREP THAT MCFADDEN NOT REPEAT NOT TRAVELING TO RIYADH.

10. IF SUBJECT OF SURETY BONDS AND PERFORMANCE GUARANTEES IS STILL ON COMMISSION MEETING AGENDA, TEAM SUGGESTS LOW KEY PRESENTATION BY US SIDE. SUGGEST THAT US SIDE STATE THE FOLLOWING(1) TECHNICAL TEAM MET WITH REPRESENTATIVES OF SAMA AND MFNE AND BAGAN A DIALOGUE ON BID, PERFORMANCE AND ADVANCE PAYMENT GUARANTEES AND SURETY BONDS;(2) USG PROVIDING FURTHER INFORMATION OF SURETY

INDUSTRY TO SAG;(3) AND USG STANDS PREPARED TO CONTINUE CONSULTATIONS
REPEAT CONSULTATIONS AT ANY TIME. TEAM BELIEVES THAT THIS LOW KEY
APPROACH AT THIS TIME IS APPROPRIATE SINCE SAG IS IN EARRG STAGES
OF CONSIDERING CHANGES TO EXISTING SYSTEM. JACKSON HEA
J AND
GORDON DANIELS CAN PROVIDE BACKGROUND IN RIYADH.
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